

Message Text

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S E C R E T STATE 221446

EXDIS

FOLLOWING SENT ACTION SECSTATE INFO LONDON, PARIS, ROMEN, THE HAGUE,
OECD PARIS, EC BRUSSELS FROM BONN NOV 01 REPEATED YOU:

QUOTE

S E C R E T BONN 15825

EXDIS

E.O. 11652: XGDS
TAGS: ENRG
SUBJECT: EUROPE, THE ARABS AND OIL

1. SUMMARY. WITH THEIR SCHEDULE OF MASSIVE AND CONTINUOUS CUTS IN PETROLEUM DELIVERIES TO WEST EUROPE, THE ARAB OUDCERS HAVE STARTED A DANGEROUS GAME THAT THEY MAY BE ABLE TO COMPLETE SUCCESSFULLY ONLY IF MID-EAST PEACE NEGOTIATIONS COME TO A PROMPT CONCLUSION. HOPEFULLY EUROPE'S INITIALLY COMPLIANT REACTION TO ARAB PRESSURE WILL NOT DECEIVE SADAT AND FAISAL INTO THINKING THEY CAN HOLD THIS COURSE EVEN THROUGH PROTRACTED NEGOTIATIONS. GIVEN POLITICAL DISARRAY AND SOME "I'M ALL SECRET

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"RIGHT JACK-ISIM" IN THE UK AND FRANCE, THE IMMEDIATE PROSPECT IS FOR MORE UNCOORDINATED, EVEN-BEGGAR-MY-NEIGHBOR TYPE NATIONAL ADJUSTMENTS TO EUROPE'S PETROLEUM PLIGHT. BUT AS SOME POINT, EUROPE WILL COME

TO THE CONCLUSION THAT A TIGHTENING ARAB STRANGLEHOLD IS INTOLERABLE. AT THAT POINT THE PROSPECT OF SHARP AND SUDDEN EUROPEAN REACTION, -- FREEZING OF ARAB ASSETS, EVEN DIRECT ACTION -- SHOULD NOT BE EXCLUDED. END SUMMARY.

2. AS JAMIESON, CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF EXXON, RECOUNTED IN A MEETING WITH THE AMBASSADOR OCT. 31, KING FAISAL HAS MADE A MISTAKE IN TYING THE ARAB OIL PRODUCTION CUTBACKS TO A SPECIFIC POLITICAL SITUATION, INSTEAD OF A CEASEFIRE OR A VAGUER POLITICAL OBJECTIVE. HE HAS THUS CREATED A SITUATION IN WHICH IT WILL BE FOR DIFFICULT FOR HIM TO CALL OFF THE PRODUCTION CUTS BEFORE A NEGOTIATED MIDEAST SETTLEMENT IS CONCLUDED. HE HAS APPARENTLY EITHER DISCOUNTED THE PROSPECT OF PROTRACTED NEGOTIATIONS, ACCORDING TO JAMIESON, OR MISCALCULATED THE SECURITY

IMPLICATIONS OF EVENTUAL EUROPEAN REACTION TO THE EXTENDED PETROLEUM DELIVERY CUTBACKS. THERE MAY BE SOME POLITICAL CIRCUMSTANCES, SHORT OF A NEGOTIATED SETTLEMENT, WHICH WOULD PERMIT FAISAL TO BACK DOWN (JAMIESON MENTIONED 1) EARLIER AGREEMENT ON A SPECIFIC PIECE, E.G. INTERNATIONALIZATION OF JERUSALEM, OF AN EVENTUAL SETTLEMENT AND IDENTIFYING IT AS A FAISAL ACHIEVEMENT AND 2) A PLEA FROM SADAT TO FAISAL) BUT THESE ARE HARD TO JUDGE.

3. EUROPE'S INITIAL REACTION TO ARAB PRESSURE HAS BEEN A COMPLIANT POLITICAL RESPONSE AND, AS JAMIESON SEES IT A STRAINED ATTEMPT TO AVOID FACING UP TO EFFECTS OF THE OIL CUTBACKS. THERE APPEARS TO BE AN ATTITUDE IN LONDON AND PARIS THAT THE OIL CUTBACKS ARE GOING TO HIT MAINLY OTHER EUROPEANS. THE REMAINING EC COUNTRIES ARE PROBABLY MOVING TOWARD A CHAIN REACTION OF UNCOORDINATED AND ALIY SELF-DEFEATING NATIONAL MEASURES ON CONT- ROLLING EXPORTS AND CONSUMPTION WHICH WILL SPREAD THE SHORTAGE PROBLEM VERY UNEVENLY. EVEN IN THE FRG, WHICH

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MAY WELL BE HIT HARDEST BY SUCH A CHAIN OF EVENTS, THE POLITICAL AND PUBLIC CLIMATE IS NOT YET READY FOR A COORDINATED EUROPEAN POSITION OR VEN INVOCATION OF THE OECD EUROPEAN SHARING ARRANGEMENT.

4. CHANCELLORY ASSISTANT SECRETARY LAHNSTEIN HAS TOLD US PRICATELY HE WELCOMES A SUPPLY CRISIS IN EUROPE AND PROBABLE FOLLOWING DISARRAY OF NATIONAL MEASURES SINCE HE BELIEVES THIS IS A NECESSARY STAGE TO GO THROUGH IN ORDER TO ARRIVE AT THE FINAL POSTURE HE WANTS -- A CO-ORDINATED HARD LINE WHICH THREATENS TO COUNTER ARAB ECONOMIC AGGRESSION IN LIKE MEASURE. LAHNSTEIN CITED THAT THE PRESENT PASSIVE EUROPEAN ATTITUDE TO A SQUEEZE ON ITS LIFELINE ONLY FEEDS ARAB APPETITE FOR BLACKMAIL

AND THE EUROPEANS NEED TO GET OVER IT AS SOON AS POSSIBLE.

5. THE ARABS MAY NOT BE HEARING THIS MESSAGE AND MAY FIND IT HARD TO BELIEVE IN LIGHT OF THE SOUNDS THEY ARE HEARING FROM EUROPE NOW. BUT IT IS LOGICAL ENOUGH THAT A PROTRACTED TIGHTENING SQUEEZE ON EUROPE'S ENERGY LIFE-LINE IS GOING TO CAUSE INTOLERABLE ECONOMIC DISRUPTION AND SOCIAL DISLOCATION. THERE IS NO REASONABLE CONSUMPTION ADJUSTMENT TO A CONTINUAL 5 PERCENT CUT IN OIL DELIVERIES. AS THIS POINT OF CRISIS HOVES STARKLY INTO SIGHT, THE PROSPECT OF A SHARP AND SUDDEN EUROPEAN REACTION CANNOT BE EXCLUDED -- MOST OF ALL BY THE ARABS. A PARTIAL ECONOMIC BLOCKADE OF EUROPE COULD BE CONSIDERED JUSTIFICATION FOR FREEZING OF ARAB ASSETS OR A SHIPPING EMBARGO. MORE HOSTILE ACTION WAS TAKEN AT THE TIME OF SUEZ -- A DIFFERENT POINT IN HISTORY, BUT UNDER LESS PROVOCATION.

HILLENBRAND

UNQUOTE RUSH

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